

**STATE OF WASHINGTON
OFFICE OF THE INSURANCE
COMMISSIONER**



FINANCIAL EXAMINATION

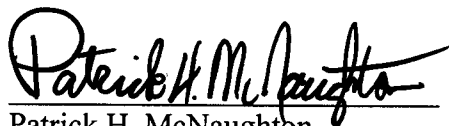
of

**CRISTA Ministries
Seattle, Washington**

AS OF DECEMBER 31, 2002

CHIEF EXAMINER'S AFFIDAVIT

I hereby certify I have read the attached Report of the Financial Examination of CRISTA Ministries of Seattle, Washington. This report shows the financial condition and related corporate matters as of December 31, 2002.

A handwritten signature in black ink, reading "Patrick H. McNaughton". The signature is written in a cursive style with a large initial "P" and a long horizontal stroke at the end.

Patrick H. McNaughton
Chief Examiner

September 19, 2005

Date

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SALUTATION

Seattle, Washington
August 19, 2005

The Honorable Mike Kreidler, Commissioner
Washington State Office of the Insurance Commissioner (OIC)
Insurance Building, Capitol Campus
301 14th Avenue SW
Olympia, WA 98504

Dear Commissioner Kreidler:

In accordance with your instructions and in compliance with the statutory requirements of Chapter 48.38 RCW, Charitable Gift Annuity Business, an examination was made of the corporate affairs and financial records of

CRISTA Ministries

of

Seattle, Washington

hereinafter referred to as "CRISTA" at the location of its home office, 19303 Fremont Avenue North, Seattle, Washington 98133.

This report of examination is respectfully submitted showing the condition of CRISTA as of December 31, 2002.

SCOPE OF THE EXAMINATION

This examination covered the five year period ending December 31, 2002. The examination was conducted in accordance with statutory requirements contained in the Revised Code of Washington (RCW) and the guidelines recommended by the National Association of Insurance Commissioners (NAIC) Financial Condition Examiners Handbook (FEH). We focused our review and testing on CRISTA's management, operations, and reporting of the charitable gift annuity business as considered necessary to ascertain the financial condition of the organization and conformity with the related laws. These matters are discussed in this report. The examination was conducted at the Seattle Office of CRISTA by examiners from the state of Washington.

CRISTA records, along with various aspects of its operating procedures and financial reports, were reviewed and tested during the course of this examination and are commented upon in the following sections of this report. In addition, CRISTA's certified public accountant's (CPA's) reports were reviewed and utilized, where possible, to facilitate efficiency in the examination.

INSTRUCTIONS

The examiners reviewed CRISTA's Annual Reports as part of the statutory examination. This review was performed to determine if it completed the Annual Reports in accordance with the Annual Report Instructions published by the OIC and to verify that its accounts and records were prepared and maintained in accordance with Chapter 48.38 RCW.

The following summarizes the exceptions noted while performing this review.

1. Assets of the Separate Annuity Reserve Fund

The assets of the separate annuity reserve fund showed a deficit of \$68,717 on December 31, 2002 due to a reclassification error within the restricted long-term investments account. The error did not affect the total net assets reported in the financial statements; therefore, no examination adjustment to the combined balance sheet was made.

RCW 48.38.020(1) states, "Upon granting to such insurer or institution under RCW 48.38.010 a certificate of exemption to conduct a charitable gift annuity business, the insurance commissioner shall require it to establish and maintain a separate reserve fund adequate to meet the future payments under its charitable gift annuity contracts."

CRISTA is instructed, pursuant to Chapter 48.38 RCW, to maintain, at all times, an annuity assets or a separate reserve fund adequate to meet the future payments under its charitable gift annuity contracts. (See SUBSEQUENT EVENTS)

CRISTA transferred additional funds from the restricted long-term investments account to the annuity investment accounts in March 2003 to correct the deficiency in the separate annuity reserve funds.

2. Annual Report – Charitable Gift Annuities Reserve Fund Balance

The ending fund balance reported in Charitable Gift Annuities Reserve Fund Balance (Schedule) for calendar year 2002, page 4 of the Annual Report, was incomplete and inaccurate. As a result, the Schedule's end of current year fund balance did not agree with the annuity investment balance shown in CRISTA's accounting records. CRISTA did not prepare its Annual Report pursuant to RCW 48.38.010(10)(a).

RCW 48.38.010 states that: "The commissioner may grant a certificate of exemption to any insurer or educational, religious, charitable, or scientific institution conducting a charitable gift annuity business: (10) Which: (a) Files with the insurance commissioner on or before March 1 of each year a copy of its annual statement prepared pursuant to the laws of its state of domicile, . . .

CRISTA is instructed, pursuant to Chapter 48.38 RCW, to establish an effective reporting system to ensure the Annual Report submitted to OIC is complete and accurate. The end of current year's fund balance, reported in the Reserve Fund Balance schedule of the Annual Report should agree with the total balances in the annuity investment accounts. Also, the names and the account numbers of the firms holding the investments of the annuity reserve funds should be both reported in the General Interrogatories section of the Annual Report.

COMMENTS AND RECOMMENDATIONS

1. In-force Annuity Agreements

The \$1,780.80 annual payment amount recorded in Annuity Agreement #92 does not agree with the \$4,800 recorded in the annuity application or the \$4,800 in the annuity expense ledger. The correct annual payment amount is \$4,800.

It is recommended that CRISTA records the correct annual payment amount of \$4,800 in Annuity Agreement No. 92.

2. Documentation of Closed Annuity Contracts

CRISTA did not maintain adequate documentation, such as a death certificate, to sufficiently support the transfer to CRISTA of the remaining annuity funds from the five annuity agreements that were closed during the year 2002. Documentation kept in the annuitant's file includes e-mails between the Accounting Department and the Planned Giving Department notifying the death of the annuitant.

It is recommended that CRISTA maintains adequate documentation of an annuitant's death. When a notification is received from a family member or executor of the state, or by any means, CRISTA contacts the appropriate government agency to obtain a death certificate. All documents should be filed in the annuitant's file.

COMPANY PROFILE

History: CRISTA was founded and incorporated in 1948 under the name King's Garden. It was renamed CRISTA, in 1979, meaning "Christ in Action" to more closely reflect its mission. CRISTA is a nonprofit organization located at 19303 Fremont Avenue North, Seattle Washington 98133.

Territory and Plan of Operation: CRISTA is organized exclusively for educational, charitable, religious, scientific, and literary purposes. It is a group of ten separate entities: CRISTA Broadcasting, CRISTA Camps, CRISTA Counseling, Intercristo, New Hope Child and Family Agency, King's Schools, CRISTA Women's Ministries, CRISTA Senior Ministries, Seattle Urban Academy, and World Concern.

CRISTA was granted a Certificate of Exemption Number 2 to conduct a Charitable Gift Annuity business in the state of Washington by the OIC on October 10, 1979. There were 119 in-force annuity contracts as of December 31, 2002; 115 were issued to residents of Washington State and the other four were issued to residents of other states.

Total Net Assets: CRISTA's total of net assets, as determined by this examination, was \$42,710,839 as of December 31, 2002. This amount included unrestricted net assets of \$34,593,012.

Growth of Company: The growth of CRISTA for the past five years is reflected in the following exhibits. All information was compiled from CRISTA's audited financial statements for the Company's fiscal years ending June 30. Please note that this information is provided based on CRISTA's fiscal year-end which is different than the examination as-of date. Also, according to the Notes to Combined Financial Statements of CRISTA as of June 30, 2002 and 2001, the gifts-in-kind inventory and revenue amounts have been restated from the amounts previously reported in the 2001 combined financial statements to record the inventory and revenue at the date received.

Schedule 1

| <u>Fiscal Year</u> | <u>Assets</u> | <u>Liabilities</u> | <u>Total Net Assets</u> | <u>Total Net Assets Allocated into:</u> | | |
|-------------------------------|----------------------|---------------------------|------------------------------------|--|--|--|
| | | | | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Permanently Restricted</u> |
| 2002 | \$88,697,615 | \$46,306,713 | \$42,390,902 | \$34,105,342 | \$8,285,560 | \$0 |
| 2001 | 89,150,006 | 48,821,796 | 40,328,210 | 31,544,032 | 8,784,178 | 0 |
| 2000 | 88,790,854 | 48,947,580 | 39,843,274 | 31,925,513 | 7,917,761 | 0 |
| 1999 | 88,033,549 | 50,412,124 | 37,621,425 | 29,548,302 | 8,073,123 | 0 |
| 1998 | 80,825,937 | 47,916,619 | 32,909,318 | 26,854,779 | 6,054,539 | 0 |

Schedule 2

| | <u>2002</u> | <u>2001</u> | <u>2000</u> | <u>1999</u> | <u>1998</u> |
|---|---------------------|---------------------|---------------------|---------------------|---------------------|
| Revenues and gains | \$72,458,370 | \$77,420,724 | \$75,651,390 | \$74,972,336 | \$63,120,922 |
| Expenses | (70,395,678) | (77,883,172) | (73,429,541) | (70,260,229) | (59,499,170) |
| Increase (decrease) in net assets | 2,062,692 | (462,448) | 2,221,849 | 4,712,107 | 3,621,752 |
| Net assets beginning of year | 40,328,210 | 40,790,658 | 37,621,425 | 32,909,318 | 29,287,566 |
| Net assets at end of year | <u>\$42,390,902</u> | <u>\$40,328,210</u> | <u>\$39,843,274</u> | <u>\$37,621,425</u> | <u>\$32,909,318</u> |
| Number of gift annuity contracts at end of year | 119 | 106 | 113 | 116 | 115 |

AFFILIATED COMPANIES

CRISTA does not have affiliates.

MANAGEMENT AND CONTROL

Ownership: CRISTA is a nonprofit corporation organized exclusively for educational, charitable, religious, scientific and literary purposes, within the meaning of Section 501 (c)(3) of the Internal Revenue Code.

Board of Directors and Officers: The responsibility for the management, control and conduct of the affairs of CRISTA is vested in its Board of Directors, herein referred to as the Board of Trustees. There were twenty-four (24) trustees in 2002-2003; 4 officers and 20 members.

Officers and directors of the Board of Trustees serving CRISTA as of fiscal years 2002 and 2003 were as follows:

Officers:

Bruce Kennedy, Chairman
Chairman, Alaska Air Group

Kevin Gabelein, Treasurer
Fluke Capital Management

Bruce Walker, Vice Chair
President Valco Graphics

Dr. Leslie Parrott, Secretary
Professor, Seattle Pacific University

Members:

Greg Alex
Executive Director, Matt Talbot Center

George Barber
President, First Western Investment

Roger Bowlin
Financial Consultant/President
R.W. Bowlin & Company

Drs. Paul & Margaret Brand
Physicians/Missionaries

Bruce Buskirk
Attorney

Craig Campbell
Owner, Campbell/Nelson VW

Kent Chaplin
Owner, Chaplin Motors

Robert Curley
President, Home Innovations, Inc.

Dave Ederer
President, Ederer Investment Company

Doris Gillet
International Foundation

Stephen Grey
President, Stephen Grey & Associates

James Gwin
President, CRISTA Ministries

Dr. Daniel Hayden
Retired Physician
Group Health Cooperative of Puget Sound

Al Howell
Retired Business Executive

Kirsten Lie
Executive Vice President, NORPRO

David Martin
President, Mere, Inc.

Laron Olson
President, Source Northwest, Inc.

Jim Shapiro
CEO, Windermere Real Estate

Phil Smart, Jr.
Owner, Phil Smart Mercedes Benz

Roger Winter
Real Estate Developer

Conflict of Interest: CRISTA has a formal conflict of interest policy which is a part of, and is defined, in its Bylaws. It does not require periodic declarations by officers, directors, and key employees, but requires a system to monitor Board members and the business activities with which each is associated in order to monitor any relationships CRISTA has with those business activities. Also, annual disclosure to its auditors of related party transactions and disclosure to a nonprofit watch dog agency are used to monitor compliance with the conflict of interest policy. No exceptions were noted.

CORPORATE RECORDS

The Board of Trustees meets at least quarterly during the year to discuss that business which is pertinent to CRISTA. Minutes of the quarterly meetings of the trustees and finance committee are prepared, approved and retained. No exceptions were noted.

STATEMENT OF ACTUARIAL OPINION

A consulting actuary with Milliman USA, Inc., determined the adequacy of the annuity reserves. In the Statement of Actuarial Opinion, the actuary acknowledges that he is a member of the American Academy of Actuaries and meets the Qualification Standards of the American Academy of Actuaries to render the actuarial opinion. His opinion indicates that CRISTA's annuity contract reserves meet the requirements of RCW 48.38.020 of the Washington Insurance Code applicable to charitable gift annuities.

ANNUITY ASSETS CUSTODIAL FUNCTION

The annuity investments are kept in two separate accounts with Bank of America and Banc of America Securities. The investment managers are responsible for making investment decisions on a discretionary basis regarding all assets placed under its jurisdiction and are held accountable for achieving the investment objectives.

SUBSEQUENT EVENTS

An Order Suspending Certificate of Exemption Number 2 was signed and entered on April 4, 2004 by the OIC. The basis for the order of suspension is due to CRISTA's failure to maintain a surplus of ten percent in the separate reserve account, which is a violation of RCW 48.38.020(3)(c). (See INSTRUCTION No. 1)

ACCOUNTING RECORDS AND PROCEDURES

The records and source documentation supported the amounts presented in CRISTA's financial statements and are maintained in a manner by which the financial condition can readily be verified.

FINANCIAL STATEMENTS

The following examination financial statements show the financial condition of CRISTA for the calendar year ending December 31, 2002:

Statement of Financial Position

| | <u>Balance Per Annual Report</u> | <u>Adj.</u> | <u>Examination Adjustments</u> | <u>Adjusted Balance</u> |
|---|---|--------------------|---|------------------------------------|
| <u>ASSETS</u> | | | | |
| Cash and cash equivalents | \$14,631,855 | | | \$14,631,855 |
| Investments | 9,814,175 | | | 9,814,176 |
| CGA investments | 1,095,576 | | | 1,095,576 |
| Other assets | 62,274,745 | | | 62,274,745 |
| Total Assets | <u>\$87,816,351</u> | | <u>\$0</u> | <u>\$87,816,351</u> |
| <u>LIABILITIES</u> | | | | |
| CGA reserves | \$1,095,576 | | | \$1,095,576 |
| Other payable | 44,009,936 | | | 44,009,936 |
| Total Liabilities | <u>45,105,512</u> | | | <u>45,105,512</u> |
| Unrestricted | 34,593,012 | | | 34,593,012 |
| Temporarily restricted | 8,117,827 | | | 8,117,827 |
| Permanently restricted | 0 | | | 0 |
| Total Net Assets | <u>42,710,839</u> | | | <u>42,710,839</u> |
| Total Liabilities and Net Assets | <u>\$87,816,351</u> | | <u>\$0</u> | <u>\$87,816,351</u> |

Statement of Financial Activity

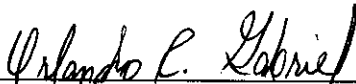
| | <u>Balance Per Annual Report</u> | <u>Adj.</u> | <u>Examination Adjustments</u> | <u>Adjusted Balance</u> |
|-----------------------------|---|--------------------|---|------------------------------------|
| Ordinary and other income | \$71,417,133 | | | \$71,417,133 |
| Ordinary and other expenses | 69,425,394 | | | 69,425,394 |
| Net income (loss) | <u>\$1,991,739</u> | | <u>\$0</u> | <u>\$1,991,739</u> |

ACKNOWLEDGMENT

Acknowledgment is hereby made for the cooperation extended to the examiners by the officers of CRISTA during the course of this examination.

In addition to the undersigned, Michael V. Jordan, CPA, CFE, MHP, Assistant Chief Examiner, from the Washington State Office of the Insurance Commissioner, participated in the examination and the preparation of this report.

Respectfully submitted,



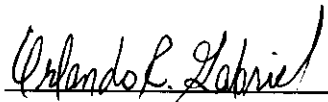
Orlando R. Gabriel, AFE, Examiner-in-Charge
State of Washington

AFFIDAVIT

STATE OF WASHINGTON }
 }
COUNTY OF KING } ss
 }

Orlando R. Gabriel, being duly sworn, deposes and says that the foregoing report subscribed by him is true to the best of his knowledge and belief.

He attests that the examination of CRISTA was performed in a manner consistent with the standards and procedures required or prescribed by the Washington State Office of the Insurance Commissioner and the National Association of Insurance Commissioners (NAIC).



Orlando R. Gabriel, AFE
Examiner-in-Charge
State of Washington

Subscribed and sworn to before me on this 19th day of September, 2005.



Notary Public in and for the
State of Washington,
Residing at Seattle

